



City of Virginia Beach

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MUNICIPAL CENTER
BUILDING 1, ROOM 234
2401 COURTHOUSE DRIVE
VIRGINIA BEACH, VIRGINIA 23456-9001

September 7, 2012

The Honorable William D. Sessoms, Jr., Mayor
Members of City Council

Subject: Town Center Phase V

Dear Mayor and Councilmembers;

On Tuesday afternoon, at your briefing session, we will be presenting a draft term sheet outlining a significant development to be constructed on Block 11 in the core area of Town Center. This exciting prospect will include a third office tower, additional apartments, retail space, new streetscapes and supportive parking garage. The proposed project has been designated as Phase V of Town Center. It is particularly significant when considering the state of the general economy and flat demand for class "A" office space.

Our Town Center partner (Armada Hoffer) will be present to make the presentation along with appropriate city staff. It is anticipated that two significant tenant announcements will also be included in their briefing. The schedule to meet the space requirements from one of the tenants will require a well-coordinated aggressive effort by all potentially involved in Phase V. Subject to City Council direction, we hope to schedule an opportunity for public comment at your September 18th meeting and reserve the possibility of your consideration of the project term sheet on October 9th. Subject to a favorable consideration we can then quickly proceed to prepare the necessary detailed development agreements to allow actual construction and proceed by February 2013.

In order to meet the anchor tenant move-in requirement, the building needs to be completed by July 31, 2014.

The Honorable William D. Sessoms, Jr., Mayor
Members of City Council
Town Center Phase V
September 7, 2012
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Please see the enclosed draft term sheet and copy of the PowerPoint presentation for Tuesday's meeting. This development will allow us and our private sector partners to continue the positive momentum in Town Center.

With Pride in Our City,

A handwritten signature in black ink, appearing to read "Robert S. Herbert Dem, for".

James K. Spore
City Manager

JKS/mrg

Enclosures (2)

c: Mark Stiles, City Attorney
Lou Haddad, Armada Hoffer

PROPOSED TERM SHEET PHASE V

September __, 2012

Representatives of the City of Virginia Beach (the “**City**”), the Virginia Beach Development Authority (the “**Authority**”), and Town Center Associates, L.L.C. (the “**Developer**”) desire to develop the fifth phase (“**Phase V**”) of the mixed-use commercial development known as The Town Center of Virginia Beach (the “**Project**”). The development arrangements for Phase I, Phase II, Phase III and Phase IV of the Project are set forth, respectively, in (i) a Development Agreement (the “**Development Agreement**”), made as of March 6, 2000 between the Developer and the Authority, as supplemented by First Supplement to Development Agreement, made as of February 28, 2000, and a Second Modification to Development Agreement dated as of August 30, 2001, (ii) a Phase II Development Agreement (the “**Phase II Development Agreement**”) dated June 17, 2003 between the Developer and the Authority, as amended by a First Modification to Development Agreement dated as of July 12, 2004; (iii) a Phase III Development Agreement (the “**Phase III Development Agreement**”) dated September 15, 2005 between the Developer and the Authority, as amended by a First Modification to Development Agreement dated as of June 20, 2006, and a Second Modification to Phase III Development Agreement dated as of August 21, 2007; and a Phase IV Development Agreement (the “**Phase IV Development Agreement**”), dated January 29, 2009. The Phase IV Agreement has expired. The Developer has proposed a development transaction (the “**Transaction**”) that envisions a comprehensive development plan for Phase V. This Term Sheet outlines the principal terms of a public/private development arrangement for the Transaction.

This Term Sheet is an outline of terms. Moreover, this Term Sheet is not, nor is it intended to be, an offer, an acceptance, or a binding agreement of any kind. To the contrary, this Term Sheet is only a summary of the basic terms of a possible transaction, which may be agreed in principle only. Although this Term Sheet identifies many of the material issues, any possible Transaction is complex and issues may arise during preparation and negotiation of definitive documentation that have not been discussed in this Term Sheet. Accordingly, legal obligations to each other will only be as specified in any definitive agreements that ultimately may be approved by City Council and the Authority’s board, and executed by all of the parties. Additionally, none of the parties to this Term Sheet are under any obligation or duty to attempt to negotiate a Transaction or any related documentation or, if such negotiations commence, to continue such negotiations. Nonetheless, by approving this Term Sheet, each party indicates its belief that this Term Sheet can form the basis for a Transaction and the willingness to commence negotiation and preparation of definitive documentation toward that end.

1. General Description of Phase V.

(a) Single-Block, Mixed-Use Project. Under the Transaction, Phase V will be a single-block, multi-facility mixed-use development. Phase V will be comprised of:

(i) Approximately 18,000 square feet of first floor retail space fronting on Main Street and lobby for the Office Tower, as hereinafter described;

(ii) An approximate 850 space public parking garage (the **"Phase V Garage"**) on a portion of the ground level with an additional 5 levels over a portion of Block 11;

(iii) 8 floors containing approximately 174,000 square feet of office space (the **"Office Tower"**), which will be located above the Phase V Garage; and

(iv) 4 floors for approximately 267 residential apartment units.

The total private investment in the Project shall be no less than \$70.4 million.

(b) Acquisition and Construction Schedule. Block 11 is owned by an Affiliate of the Developer, except for a small strip of land fronting on Town Center Drive, which Developer will acquire from the Authority by no later than June 30, 2013, but it is hoped that it will be acquired by the end of 2012.

Developer shall pay Authority a purchase price calculated in accordance with the terms of the Option Agreement dated June 5, 2000 between Developer and the Authority, as amended. The estimated purchase price is approximately \$260,000.

Developer shall cause the construction of the Phase V Parking Garage and shall comply with the City Council's Small Business Enhancement Policy. In addition, Developer acknowledges the City Council's 10% minority subcontractor goal.

Construction of the Block 11 improvements will take approximately two (2) years.

2. Purchase of Phase V Parking Garage.

(a) Purchase Obligations. The Authority will purchase the Phase V Garage. Like the Block 4, 7, 10 and 12 parking garages the Authority has purchased under the Development Agreements, the Phase V Garage will be a condominium unit within the multi-use structure to be constructed by the Developer on Block 11.

(b) Pricing.

(i) The purchase price for the Phase V Garage will be the sum of the following components: (i) agreed upon hard construction costs; (ii) agreed upon soft construction costs; (iii) an allocation of a portion of the land costs; and (iv) an allocation of construction loan interest. In no event shall the total acquisition cost for the Phase V Garage exceed the lesser of \$18 million or the amount agreed upon pursuant to subpart (ii) below.

(ii) The final purchase price for the Phase V Garage will be negotiated prior to the execution of the development agreement, but the negotiated

maximum purchase price will be a fixed amount and will be supported by the Authority's cost analysis for the Phase V Garage. In addition, the sum of (x) the City's forecast of cash flows from the available TIF Revenues and (y) cash payments from the Developer, as described below) must be sufficient to amortize over a 20-year period the anticipated financing of the agreed purchase price for the Phase V Garage.

(iii) It is possible that the Authority (and by Extension, the City) will experience a loss (i.e. a TIF shortfall) of certain of the material benefits of its bargain under Phase V if additional improvements are not constructed in the Town Center Project within a certain time period. In consideration of such potential loss, Developer shall cause obligors acceptable to the Authority to pay a reimbursement amount (the "RA Amount") of \$300,000 annually during fiscal years 2015 through 2018 and \$350,000 in fiscal years 2019 through 2023. To the extent not inconsistent with specific provisions set forth in this paragraph, the RA Amount will be secured, paid, receive credits against and otherwise follow the terms and conditions as for the Block 3 RA for Phase II. Additionally, the projected revenues for the TIF will be re-evaluated by the City five years after acquisition of the Phase V Garage. If at that time the City determines, in its sole discretion, that a lesser RA Amount will prevent a TIF shortfall and allow reasonable reserves, the RA Amount will be reduced to that amount. The RA Amount will be secured on terms and in a form acceptable to the City.

(c) Conditions. Generally, the Authority's obligation to purchase the Phase V Garage will be conditioned upon substantially the same types of real estate purchase contingencies as are set forth in the Development Agreements as to the purchase of the Block 4, 7, 10 and 12 parking garages (for example, title, completion of construction in compliance with approved plans, compliance with applicable laws, including zoning and availability of funding). The Authority also will receive in connection with each purchase substantially the same types and kinds of representations, warranties, closing deliveries and similar assurances as are set forth in the Development Agreements. In addition, the Phase V Garage shall be substantially complete and equipped and ready for legal occupancy (i.e., move-in ready).

3. Authority Lease of Space in Office Tower.

The Authority will lease or cause the City to lease one full floor in the Office Tower of approximately 20,000 usable square feet (21,600 rentable square feet). The term of the lease will be for 10 years and annual base rent for the first lease year will be a negotiated rate no greater than the lease rate charged the other anchor tenant in the building, on a per rentable square foot basis. Annual base rent will increase by 3% compounded each year. The form of the lease will generally be that of the lease of the Authority for its space on the 10th floor in the Block 4 Office Tower (222 Central Park Avenue). All terms of the lease shall be reasonably acceptable to the Authority, City and Developer.

4. Infrastructure Funding.

The cost of public infrastructure components (primarily streetscapes) shall be funded through and shall be subject to Authority EDIP appropriations. The municipal investment for Phase V streetscapes shall not exceed \$1,000,000. To the extent that any of Developer's land is intended to be utilized for public infrastructure, Developer at no cost to Authority shall cause such portions to be dedicated to the City of Virginia Beach for such public purposes.

5. Parking.

Authority directly, or through a managing agent, will manage the Phase V Garage subject to the following principles:

(a) The facility will be operated as a public parking garage. The parking spaces shall be available for public parking on a first-come, first served free basis. The Authority reserves the right to elect after 2037 to charge a fee for parking.

(b) The Developer shall have the right to lease from the Authority a portion of the parking spaces in the Phase V Garage (not to exceed 10% of the available total of spaces) under a long term lease upon terms and conditions similar to those set forth in Section 13.3.2 of the Phase II Development Agreement and 13.2.2 of the Phase III Development Agreement.

(c) The spaces to be leased as provided above may be located anywhere within the Phase V Garage. They also may be segregated on one or more levels of the Phase V Garage. Such spaces may be designated for users (e.g., names on spaces, numbers on spaces), but the selection of spaces that are so designated must be made on a random basis.

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AUTHORITY:

**CITY OF VIRGINIA BEACH
DEVELOPMENT AUTHORITY**, a
political subdivision of the Commonwealth
of Virginia

(SEAL)

ATTEST:

Secretary / Assistant Secretary

By: _____
Name: _____
Title: [Chairman] [Vice Chairman]

Date: September __, 2012

CITY:

CITY OF VIRGINIA BEACH

By: _____
Title: _____

Date: September __, 2012

ATTEST:

Ruth Hodges Fraser, City Clerk MMC

DEVELOPER:

TOWN CENTER ASSOCIATES, L.L.C.,
a Virginia limited liability company

By: _____ (SEAL)
Louis S. Haddad, Manager

Date: September __, 2012

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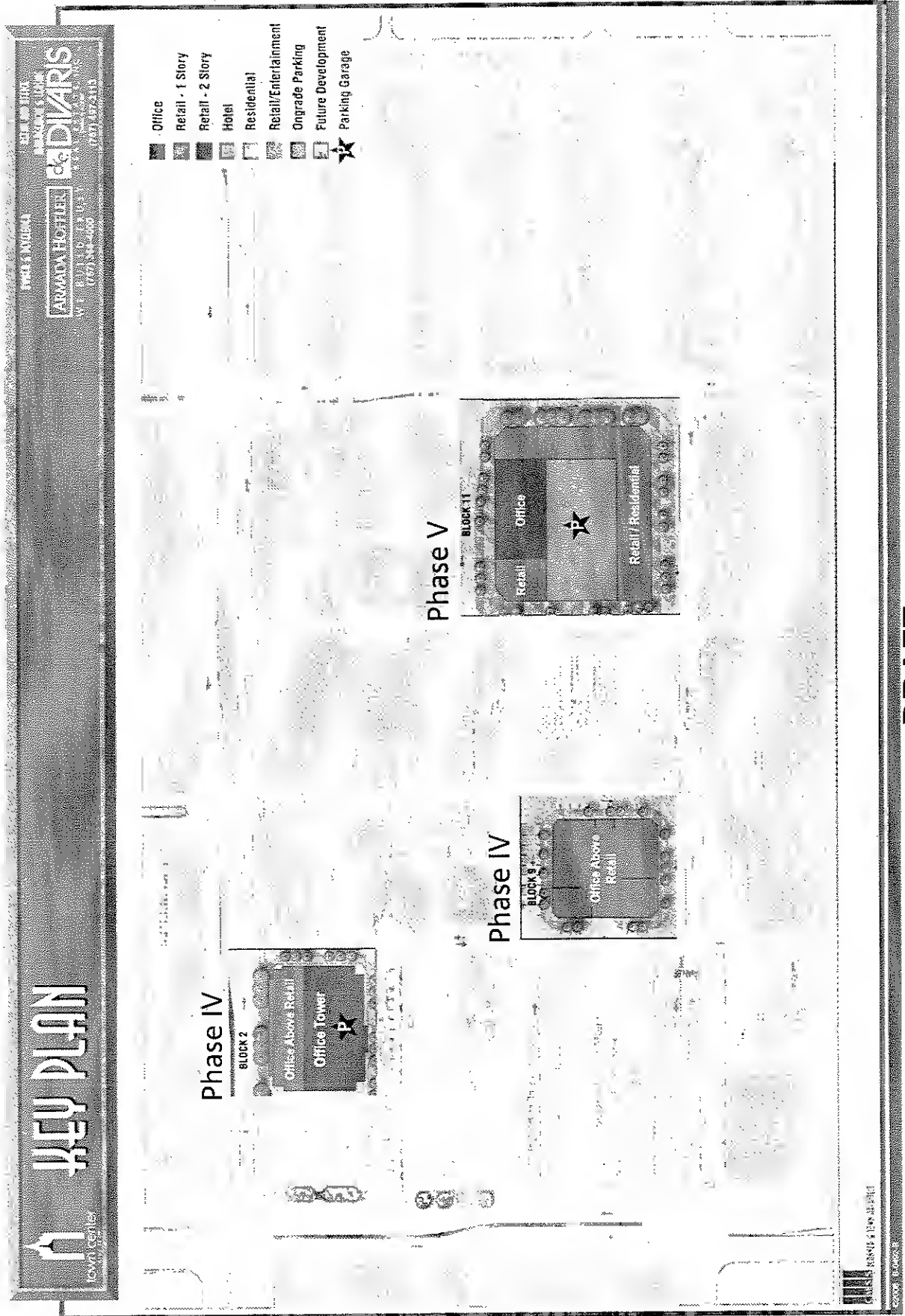
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Town Center Proposed Phase V

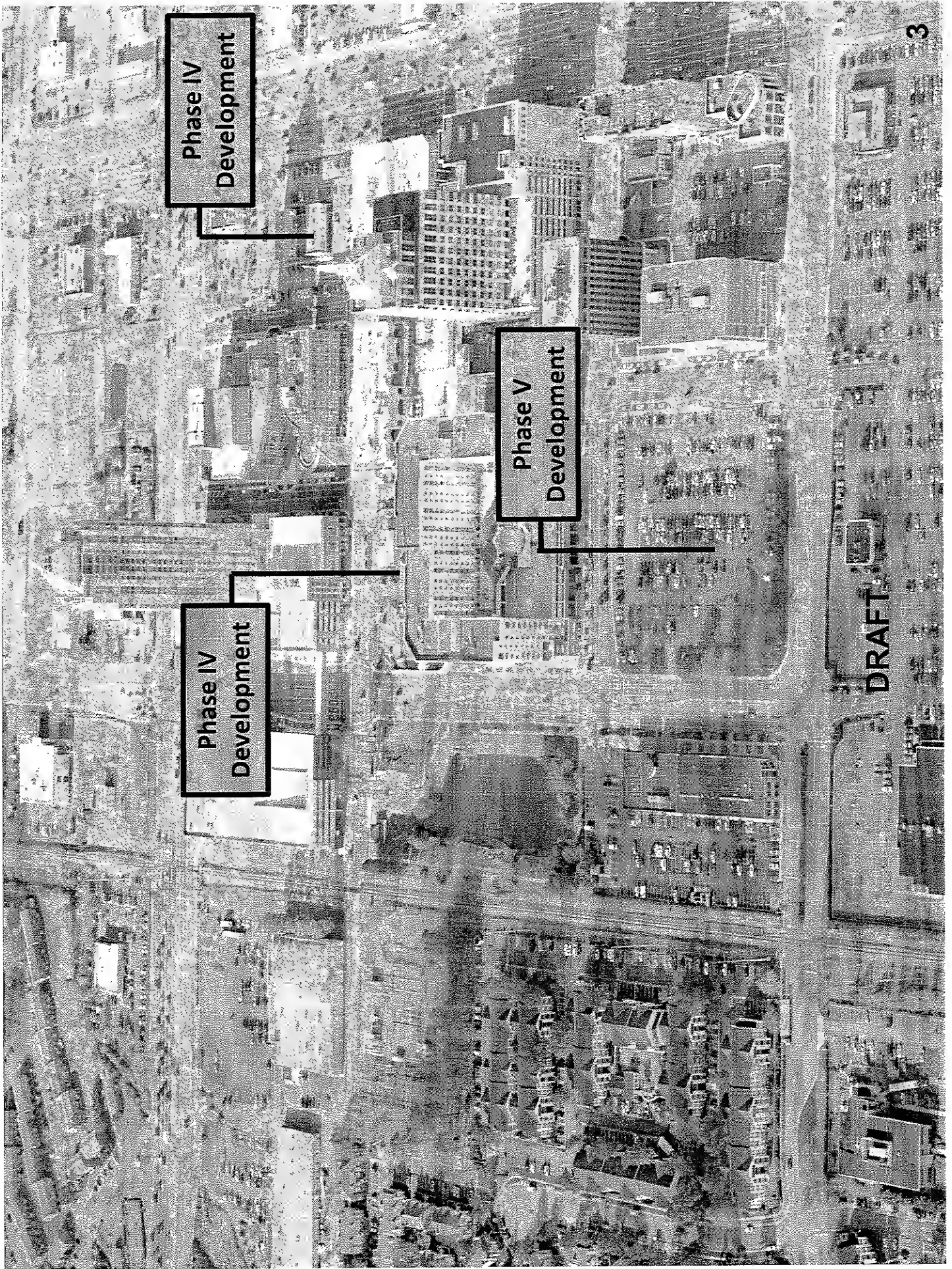
September 11, 2012

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Town Center Master Plan



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Phase IV
Development

Phase V
Development

Phase IV
Development

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Town Center 1998 Office Rendering

- Rendering 09/10/2012

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Town Center 1998 Apartment Rendering

- Rendering 09/10/2012

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Phase V – Facts Sheet

Private Sector Components in Phase V include...

Block 11

- 174,000-sq. ft. Office
- 267 Apartments
- 18,000 Retail

Public Sector Components in Phase V include...

Block 11

- 875-space Parking Garage
- Streetscapes

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Town Center 1998

Major Tenant Announcement

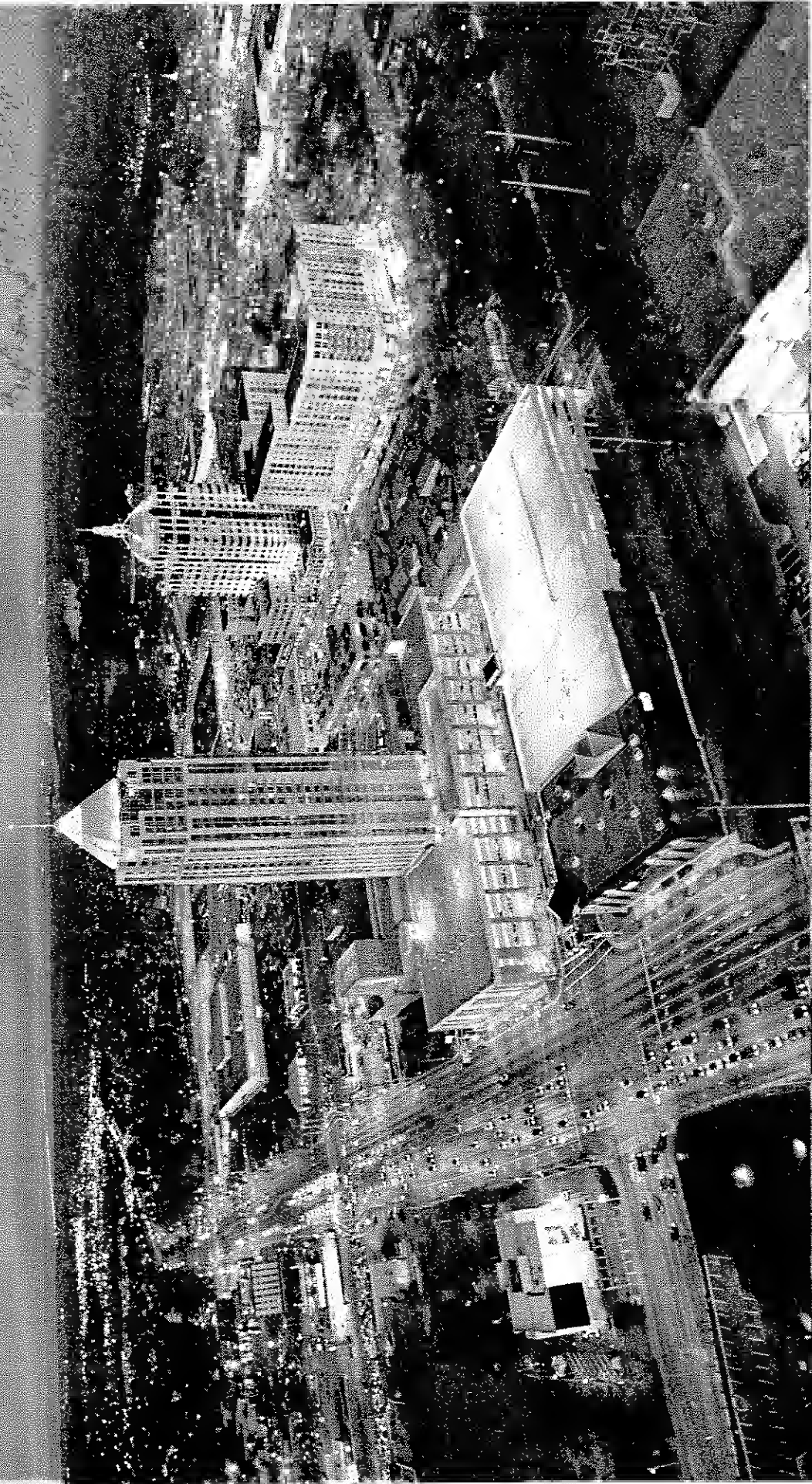
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Town Center 1998



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Town Center



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Summary of the Town Center Project Financial Plan Phase I, Phase II, Phase III
And New Proposed Phase V
(millions of dollars)

	Phase I	Phase II	Phase III	Total Phases I - III	Phase IV	Phase V
Public Investment						
Public Parking Garages – TIF Funded	\$22.50	\$18.10	\$16.90	\$57.50	\$18.0	\$75.50
Meeting Space, Connector, & Land – TIF Funded	\$0.5		\$9.9	\$10.40		\$10.40
Infrastructure – CIP/EDIP Funded	\$6.3	\$7.7	\$1.7	\$15.70	\$1.0	\$16.70
Total Garage and Infrastructure - Public	\$29.30	\$25.80	\$28.50	\$83.60	\$19.0	\$102.60
Total Private Investment:	\$95	\$97	\$200	\$365	\$70.4	\$435.44
Public Private Ratio	1:3.02	1:3.8	1:7.0	1:4.4	1:3.7	1:4.2
Completion Dates	Fall 2003	Winter 2005	Fall 2007		Summer 2014	

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Funding The Public Portion

The VBDA will own the garage and issue Public Facility Revenue Bonds to acquire it.

A TIF Special Revenue Fund was created in 2000 to accumulate incremental real estate taxes paid by property within the TIF District and pay debt service for public parking garages and related infrastructure.

The TIF Fund will support the payment of debt service on the bonds issued for Phase V, provided the following occurs:

1. General assessments/expected TIF revenue meet projections (2% after fy 14)
2. Developer payments or additional taxable development generate generally level stream of income to TIF aggregating to \$3.0M over 9 years
3. EDIP fund reimburses TIF \$2.5M used for acquisition of Beacon Land

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Business Taxes Generated
Within the Core Area of the CBD
South TIF District

Type of Tax	FY-2005	FY-2006	FY-2007	FY-2008	FY-2009	FY-2010	FY-2011	Total
Business License	\$735,204	\$840,825	\$922,049	\$1,531,582	\$1,233,412	\$1,031,408	\$1,017,683	\$7,312,163
Business Property	233,634	346,107	396,849	459,920	488,441	512,452	543,806	\$2,981,209
Trustee Taxes	1,653,635	2,436,041	2,722,755	3,409,303	3,787,405	3,653,831	3,942,810	\$21,605,780
General Sales Taxes	440,202	536,114	567,921	601,962	676,243	645,569	654,584	\$4,122,595
Total	\$3,062,675	\$4,159,087	\$4,609,574	\$6,002,767	\$6,185,501	\$5,843,260	\$6,158,883	\$36,021,747

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Next Steps

- Public Comment → September 18
- City Council Consideration → October 9
 - Term Sheet / Development Agreement
- Start Construction → February 2013
- Complete Construction → July 2014

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